

CITY OF PELLA, IOWA  
INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

June 30, 2004

DRAFT COPY FOR REVIEW  
AND DISCUSSION  
PURPOSES ONLY



CITY OF PELLA, IOWA  
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# **CITY OF PELLA, IOWA**

## **CITY OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January, 2004)</b>		
Ted Zylstra	Mayor	January, 2004
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2006
Arvin Bandstra	Council Member	January, 2004
Bob Pippel	Council Member	January, 2004
Marty Racheter	Council Member	January, 2004
Bruce Schiebout	Council Member	January, 2006
Howard Vroom	Council Member	January, 2006
James Twombly	Administrator	Indefinite
Mike Nardini	Finance Director/City Clerk	Indefinite
Jerry Lo Rang	Attorney	June, 2003
<b>(After January, 2004)</b>		
Darrell D. Dobernecker	Mayor	January, 2008
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2006
Richard Slings	Council Member	January, 2008
Richard Savery	Council Member	January, 2008
James Mueller	Council Member	January, 2008
Bruce Schiebout	Council Member	January, 2006
Howard Vroom	Council Member	January, 2006
James Twombly	Administrator	Indefinite
Mike Nardini	Finance Director/City Clerk	Indefinite
Bob Stuyvesant	Attorney	January, 2007



### Independent Auditor's Report

Honorable Mayor,  
Members of the City Council  
City of Pella, Iowa

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Pella's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Pella as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 20 to the financial statements, during the year ended June 30, 2004, City of Pella adopted Governmental Accounting Standards Board (GASB) Interpretation No. 39, Determining Whether Certain Organizations are Component Units.

In accordance with Governmental Auditing Standards, we have also issued our reports dated October 14, 2004, on our consideration of the City of Pella's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 12 and 50 through 53 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pella's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Van Maanen & Associates, P.C.  
Certified Public Accountants

October 14, 2004

## **CITY OF PELLA, IOWA**

### **MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004**

This section of the annual financial report presents discussion and analysis of the City's financial performance during the fiscal year that ended June 30, 2004.

#### ***FINANCIAL HIGHLIGHTS***

- The assets of the City of Pella exceeded its liabilities at the close of the fiscal year by \$61,867,032 (net assets).
- The assets of the City's governmental activities exceeded liabilities by \$14,064,875.
- Assets of business type activities exceeded liabilities by \$47,802,157.
- The revenues of the governmental activities exceeded expenses by \$1,720,598.
- Within the City's business-type activities, revenues exceeded expenses by 2,758,980. The City policy is to set rates that fund operation expenses and debt service requirements of business-type activities. In addition, rates are established to fund capital improvements either through pay-as-you go financing or through debt issues.
- At June 30, 2004 the general fund had an unrestricted fund balance of \$1,340,917 or working capital of nearly 38% of annual expenditures.

#### ***OVERVIEW OF THE FINANCIAL STATEMENTS***

The City's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This discussion and analysis is intended to serve as an introduction to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

##### ***Government-wide financial statements***

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business. The paragraphs below provide a brief description of the government-wide financial statements.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods such as uncollected taxes and earned but unused vacation leave.

***The government-wide financial statements are divided into two categories:***

***Governmental activities*** - This category consists of services provided by the City that are principally supported by taxes and intergovernmental revenues. Basic City services such as police, fire, public works, planning, parks, the library, and general administration are governmental activities.

***Business type activities*** - These activities are supported primarily by user fees. The services provided by the City in this category, include water, sewer, sanitation services, and electrical utilities.

### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure compliance with legal requirements for financial transactions and reporting. All of the City's funds can be divided into two categories: governmental funds and proprietary funds.

***Governmental funds*** are used to account for essentially the same functions reported as governmental in the government-wide financial statements. However unlike the government-wide financial statements, government fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financial decision. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains four individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue-road use tax fund, debt service fund, and capital project fund, all of which are considered to be major funds. Data from the other twenty-one governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general, debt service, capital projects, and special revenue funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget.

***Proprietary funds*** can be categorized into two groups, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer, and environmental services utilities. Data from these funds are combined into a single, aggregated presentation. Individual fund data for each of these funds is provided in the form of combining statements elsewhere in the report. Internal Service funds are accounting devices used to

accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its health insurance program.

The financial statements of the proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

*Notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets as noted earlier, may serve as a useful indicator of a government's financial position when observed over time. In the case of the City, assets exceeded liabilities by \$61,867,032 at the close of the most recent fiscal year. However as noted in footnote #7, a good portion of the city's infrastructure is not included in the above net asset numbers. The reason for this is under GASB 34 cities have up-to four years to recognize past acquisitions of infrastructure. In our case it is beneficial for staff to determine the cost of our infrastructure rather than hiring an outside consultant. Furthermore we anticipate the past assets will be added within the next two years.

The most significant portion of the city's net assets (65.73%) are reflected in capital assets such as land, buildings, infrastructure, machinery, and equipment less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to the citizens and are not available for future spending.

#### **CITY OF PELLA'S NET ASSETS**

	<b>Governmental Activities</b>		<b>Business Type Activities</b>		<b>Total</b>	
	<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Current and other assets	\$ 6,849,566	8,293,718	\$ 20,391,347	20,434,423	\$ 27,240,913	28,728,141
Capital assets	24,284,761	22,859,936	53,941,298	50,202,108	78,226,059	73,062,044
Total assets	31,134,327	31,153,654	74,332,645	70,636,531	105,466,972	101,790,185
Current Liabilities	4,904,510	5,393,347	3,465,367	3,689,477	8,369,877	9,082,824
Long-term liabilities	12,164,942	13,163,481	23,065,121	23,226,954	35,230,063	36,390,435
Total Liabilities	17,069,452	18,556,828	26,530,488	26,916,431	43,599,940	45,473,259
Net assets:						
Invested in capital assets, net of related debt	11,693,035	10,008,734	28,972,617	25,133,673	40,665,652	35,142,407
Restricted assets	1,533,616	-	7,867,572	4,157,617	9,401,188	4,157,617
Unrestricted assets	838,224	2,588,092	10,961,968	14,428,810	11,800,192	17,016,902
Total net assets	\$ 14,064,875	12,596,826	\$ 47,802,157	43,720,100	\$ 61,867,032	56,316,926

A portion of the City's net assets (15.20%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets or the unrestricted net assets of \$11,800,192 may be used to meet the City's ongoing obligations to citizens and creditors.

### *Analysis of Changes in Net Assets*

	Governmental Activities		Business Type Activities		Total	
	June 30,		June 30,		June 30,	
	2004	2003	2004	2003	2004	2003
<b>Revenues</b>						
Charges for service	\$ 412,768	407,695	\$ 17,838,098	16,901,280	\$ 18,250,866	17,308,975
Operating grants, contributions	989,851	1,541,255	-	-	989,851	1,541,255
Capital grants, contributions	246,818	-	-	-	246,818	-
Property taxes	2,837,958	2,794,268	-	-	2,837,958	2,794,268
Local option taxes	851,409	908,915	-	-	851,409	908,915
TIF	1,444,657	1,069,118	-	-	1,444,657	1,069,118
Other Taxes	367,213	518,228	(118,088)	(147,812)	249,125	370,416
Grants & contributions	76,318	70,561	-	-	76,318	70,561
Payment in lieu of taxes	489,212	425,177	-	-	489,212	425,177
Investment earnings	61,733	83,483	238,863	454,528	300,596	538,011
Miscellaneous	164,758	307	303,312	62,136	468,070	62,443
Gain on sale of assets	-	64,309	18,712	-	18,712	64,309
Contributions to permanent fund	150,000	-	-	-	150,000	-
Transfers	21,047	(6,082)	(21,047)	121,675	-	115,593
Total revenues	8,113,742	7,877,234	18,259,850	17,391,807	26,373,592	25,269,041
<b>Expenses</b>						
General government	832,890	912,440	-	-	832,890	912,440
Public Safety	1,278,568	1,276,804	-	-	1,278,568	1,276,804
Public Works	1,136,810	1,253,253	-	-	1,136,810	1,253,253
Culture & Recreation	1,944,406	2,041,226	-	-	1,944,406	2,041,226
Community & Economic Development	262,752	86,560	-	-	262,752	86,560
Facilities & Acquisition	343,651	290,906	-	-	343,651	290,906
Long-term debt and interest cost	594,067	627,299	-	-	594,067	627,299
Water	-	-	1,679,917	1,722,178	1,679,917	1,722,178
Sewer	-	-	1,885,984	1,752,060	1,885,984	1,752,060
Sanitation	-	-	376,018	351,753	376,018	351,753
Electric	-	-	10,983,941	10,536,410	10,983,941	10,536,410
Internal Service	-	-	575,010	989,788	575,010	989,788
Total expenses	6,393,144	6,488,488	15,500,870	15,352,189	21,894,014	21,840,677
Change in net assets	\$ 1,720,598	1,388,746	\$ 2,758,980	2,039,618	\$ 4,479,578	3,428,364

### **FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS**

Governmental funds provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances serve as a useful measure of a government's net resources available at the end of the fiscal year.

The City's governmental funds reported a combined fund balance of \$3,231,080 at June 30, 2004. This was a decrease of \$1,321,850 from the prior year. A summary of each of the government major fund balances is as follows:

#### **General Fund**

The general fund's balance increased by \$271,301 or 25.36% in Fiscal Year 2004. The surplus can be attributed to operational savings made throughout the year as we operated a majority of the year with open positions and funded only necessary expenditures throughout the year. As a result, our fund balance increased to \$1,340,917 which represents approximately 38% of annual expenditures, and exceeds the City's target range of 25% to 33%.

### ***Debt Service Fund***

The debt service fund's balance of \$140,391 can be utilized to offset future general obligation principal and interest payments. During the year the fund balance decreased by \$76,097, which was due to a transfer not being made from the Local Option Sales Tax Fund for debt service expenses. The FY 04 transfer will be made in FY 05.

### ***Road Use Tax Fund***

The Road Use Tax Fund had a balance of \$949,036 at June 30, 2004. However, \$537,246 of this balance is a receivable due from the Pella Business Corridor TIF Fund, and will be repaid as development occurs in the TIF district. During the year the fund balance increased by \$20,465, which is a result of operating savings made during the year.

### ***Capital Projects Funds***

The capital project funds are comprised of three main funds which are as follows:

***Capital Facilities Fund*** had a fund balance of \$345,566 at June 30, 2004. General Fund capital improvement projects are funded out of this fund. Annually the General Fund transfers amounts to cover expenditures made in the Capital Facilities Fund. However, the fund balance is also available to supplement any capital purchases made by the General Fund.

***Library Building Fund*** had a fund balance of \$812,095 at June 30, 2004. This balance is intended for either improvements to the current Library, or a renovation of the Old Carnegie Vierson Library into a new City Hall.

***Aquatic Center Project Fund*** had a fund balance of (\$468,349) at June 30, 2004. This deficit is due to a timing difference in receipts and outlays for the new aquatic center. This deficit balance will be eliminated in FY 05.

### ***Proprietary Funds***

The City's proprietary funds provide the same information found in the government-wide financial statements, but in more detail.

The combined net assets of the enterprise funds at June 30, 2004 totaled \$47,802,157 of which \$10,961,968 is unrestricted. Overall net assets for enterprise funds increased by \$2,758,980, which is an increase of 6.13% over the 2003 net assets of \$45,043,177.

The net assets of internal service funds, which is comprised mainly of the City's health insurance trust fund increased from \$62,503 to \$415,533. The reason for a majority of the increase was due to claims savings attributed to increasing deductibles and out-of-pocket expenses for the plan.

## ***BUDGETARY HIGHLIGHTS***

The FY 04 budget was amended on May 18, 2004 for the following reasons:

- The 2004 Electric Budget was converted to the FY 03-04 City Budget.
- The Library moved \$3,250 from FY 04-05 to FY 03-04 to utilize state funding to replace PC's.
- Expenditures were increased \$46,300 for the Lincoln St. Improvements for Oakwood Estates.
- Expenditures were increased \$28,300 for a Sewer Repair in the 600 block of Lincoln St.

None of the above variations are expected to have a significant effect on future services or liquidity.

## ***CAPITAL ASSETS***

### ***Capital Assets***

Major construction projects and associated expenses for the year included the following:

#### ***Governmental Activities***

Construction of Outdoor Aquatic Center \$2,597,881

#### ***Wastewater Fund Activities***

Construction of Southwest Trunkline \$97,810

#### ***Electric Fund***

Construction of New Diesel Generating Plant \$202,101

Construction cost for ownership share of Council Bluffs 4 \$1,901,955

Middle South/SE Conversion \$211,179

Additional information concerning the City's capital assets can be found in the notes to the financial statements.

## ***DEBT ADMINISTRATION***

At the close of fiscal year ended June 30, 2004, the City had bonds outstanding of \$38,190,000. This included new issues of \$6,000,000 which were issued for the following purposes:

***2004 Electric Revenue Bonds for \$6,000,000*** - The purpose of this issue was to finance CB-4 and allow us to redeem the \$3,280,000 remaining on the 1996 Revenue Bonds six years early. The estimated savings on this redemption was over \$180,000.

The City maintains an A2 rating from Moody's Investor Services on all its general obligation debt and electric revenue debt. The latest water revenue bond obtained an initial rating of A3.

State statutes limit the amount of general obligation debt an Iowa city may issue to five percent of the actual assessed valuation at January 1, 2002. The current general obligation debt limitation for the City is \$25,370,471 and at June 30, 2004 there was \$14,675,000 of outstanding general obligation debt. Therefore the city's debt margin is \$10,695,471 or 40.97%.

### ***ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES***

The slowing of the national economy has had a negative impact on the City of Pella, but has been less severe than for many local governments. City revenues that would be most affected by a slowing economy such as local option sales tax and hotel/motel taxes have actually showed increases from the prior year. However, property valuations in the City have been relatively stagnant over the last three years, which has resulted in a leveling off of property tax revenue.

At the state level, where revenues are more closely tied to the national economy, annual collections have not meet growth projections. As a result the State of Iowa has had to deal with significant budget shortfalls each of the last three years. To help cure the shortfall for Fiscal Year 2004 the state cut a significant portion of shared revenue provided to local governments. The unfortunate part of the cut was that it came after local governments had certified budgets and set property tax rates. Pella's estimated loss of funding amounted to \$150,000 or 4.28% of the general fund's estimated revenues.

In response to the state cuts; stagnant property valuations; rising health insurance costs; and expected increases in retirement contributions; the City implemented a cost savings plan that was intended to maintain the City's tax and utility rates through 2006. The plan generated savings of nearly \$650,000 annually while at the same time avoiding significant decreases in service levels.

Listed below is a brief summary of the City's property and utility rates as established in the Fiscal Year 2004 Budget:

#### ***Property Taxes***

The City was able to maintain its property tax rate in Fiscal Year 2004 at \$10.20/\$1,000 of taxable valuation. In addition, there will be no change in the rate for Fiscal Year 2005.

#### ***Electric Rates***

There has not been an electrical rate increase since 1996. In addition it appears the City will be able to finance our share of the new 790 Megawatt power plant in Council Bluffs without increasing rates. The total cost of the project is estimated at \$16.1 million dollars and we will utilize both cash on hand and revenue debt to pay for the construction costs.

#### ***Water Rates***

For Fiscal Year 2004 there was no increase in water rates. In addition there will be no increases in Fiscal Year 2005 as well.

### ***Waste Water Rates***

For Fiscal Year 2004 there was no increase in waste water rates. However, in Fiscal Year 2005 we increased the base fee by \$2 per account, which will be used to fund a ten year cleaning and televising program of the collection system.

### ***Requests for Information***

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed to the City Administrator, 717 Main Street, Pella, Iowa 50219.

## **Financial Statements**

CITY OF PELLA, IOWA  
STATEMENT OF NET ASSETS  
June 30, 2004

	Governmental Activities	Business type Activities	Total
<b>Assets</b>			
Current Assets:			
Cash and pooled investments	\$ 2,564,577	9,347,903	11,912,480
Receivables:			
Property tax:			
Delinquent	21,085	-	21,085
Succeeding year	2,734,979	-	2,734,979
Other tax:			
Local option	101,367	-	101,367
TIF delinquent	5,545	-	5,545
Accounts (net of allowance for uncollectibles)	19,737	1,489,983	1,509,720
Accrued interest	6,374	30,567	36,941
Due from other governments	6,677	-	6,677
Internal balances	(144,391)	144,391	-
Inventories	-	702,416	702,416
SO2 Credits	-	808,515	808,515
Restricted assets (cash and pooled investments)	1,533,616	7,867,572	9,401,188
Total current assets	6,849,566	20,391,347	27,240,913
Non-current assets:			
Deferred charge (issuance costs)	-	252,955	252,955
Capital assets:			
Land, wastewater rights, and infrastructure	5,495,416	15,412,797	20,908,213
Depreciable buildings, property, equipment and infrastructure, net	18,789,345	38,275,546	57,064,891
Total non-current assets	24,284,761	53,941,298	78,226,059
<b>Total assets</b>	31,134,327	74,332,645	105,466,972
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued liabilities	631,100	1,387,476	2,018,576
Salaries and benefits payable	121,157	82,796	203,953
Deposits	1,025	8,197	9,222
Accrued interest payable	46,024	93,451	139,475
Deferred revenue - succeeding year property tax	2,734,979	-	2,734,979
Compensated absences-due within one year	130,225	128,447	258,672
Long-term debt - due within one year	1,240,000	1,780,000	3,020,000
Total current liabilities	4,904,510	3,480,367	8,384,877
Non-current liabilities:			
Long-term debt - due in more than one year:			
Compensated absences	104,942	114,395	219,337
Capital loan notes	225,000	-	225,000
Revenue bonds payable	-	21,635,726	21,635,726
General obligation bonds	11,835,000	1,300,000	13,135,000
Total non-current liabilities	12,164,942	23,050,121	35,215,063
<b>Total liabilities</b>	17,069,452	26,530,488	43,599,940

CITY OF PELLA, IOWA  
STATEMENT OF NET ASSETS  
June 30, 2004

	Governmental Activities	Business type Activities	Total
<b>Net Assets</b>			
Invested in capital assets, net of related debt	11,693,035	28,972,617	40,665,652
Restricted for:			
Debt service	94,367	6,359,375	6,453,742
Improvements	-	1,500,000	1,500,000
Special Purposes	1,249,249	-	1,249,249
Permanent Trust	190,000	-	190,000
Other	-	8,197	8,197
Unrestricted	838,224	10,961,968	11,800,192
<b>Total net assets</b>	<b>\$ 14,064,875</b>	<b>47,802,157</b>	<b>61,867,032</b>

See notes to financial statements.

## Exhibit B

CITY OF PELLA, IOWA  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2004

Functions/Programs	Program Revenues			
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 832,890	136,207	-	-
Public safety	1,278,568	34,802	100,610	4,100
Public works	1,136,810	-	823,813	-
Culture and recreation	1,944,406	241,759	65,428	-
Community and economic development	262,752	-	-	-
Facilities and acquisition	343,651	-	-	242,718
Long-term debt costs and interest	594,067	-	-	-
Total governmental activities	6,393,144	412,768	989,851	246,818
Business type activities:				
Water	1,679,917	2,135,726	-	-
Sewer	1,885,984	1,436,833	-	-
Sanitation	376,018	413,166	-	-
Electric	10,983,941	12,955,284	-	-
Internal service	575,010	897,089	-	-
Total business type activities	15,500,870	17,838,098	-	-
Total primary government	\$ 21,894,014	18,250,866	989,851	246,818
General Revenues:				
Taxes:				
Property taxes				
Local option tax				
TIF				
Other taxes				
Grants and contributions not restricted to specific programs				
Payments in lieu of taxes				
Investment earnings				
Miscellaneous				
Gain on sale of assets				
Contributions to Permanent Fund				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets beginning of year, as restated,see notes 12 & 18				
Net assets end of year				
See notes to financial statements.				

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(696,683)	-	(696,683)
(1,139,056)	-	(1,139,056)
(312,997)	-	(312,997)
(1,637,219)	-	(1,637,219)
(262,752)	-	(262,752)
(100,933)	-	(100,933)
(594,067)	-	(594,067)
(4,743,707)	-	(4,743,707)
-	455,809	455,809
-	(449,151)	(449,151)
-	37,148	37,148
-	1,971,343	1,971,343
-	322,079	322,079
-	2,337,228	2,337,228
(4,743,707)	2,337,228	(2,406,479)
2,837,958	-	2,837,958
851,409	-	851,409
1,444,657	-	1,444,657
367,213	(118,088)	249,125
76,318	-	76,318
489,212	-	489,212
61,733	238,863	300,596
164,758	303,312	468,070
-	18,712	18,712
150,000	-	150,000
21,047	(21,047)	-
6,464,305	421,752	6,886,057
1,720,598	2,758,980	4,479,578
12,344,277	45,043,177	57,387,454
\$ 14,064,875	47,802,157	61,867,032

## Exhibit C

CITY OF PELLA, IOWA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2004

	Major Funds			Nonmajor		Total
	General	Special Revenue - Road Use	Debt Service	Capital Projects	Other Governmental Funds	
<b>Assets</b>						
Cash and pooled investments	\$ 1,659,730	457,662	135,830	1,181,427	663,544	4,098,193
Receivables:						
Property tax:						
Delinquent	14,519	-	3,825	-	2,741	21,085
Succeeding year	1,989,780	-	346,000	-	399,199	2,734,979
Other tax:						
Local option	-	-	-	-	101,367	101,367
TIF delinquent	-	-	-	-	5,545	5,545
Accounts receivable, miscellaneous	769	148	-	18,820	-	19,737
Accrued interest	595	-	736	2,894	2,149	6,374
Due from other governments	6,677	-	-	-	-	6,677
Interfund receivable	-	537,246	-	-	-	537,246
<b>Total assets</b>	<b>\$ 3,672,070</b>	<b>995,056</b>	<b>486,391</b>	<b>1,203,141</b>	<b>1,174,545</b>	<b>7,531,203</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable and accrued liabilities	\$ 120,978	15,033	-	493,842	1,247	631,100
Salaries and benefits payable	108,823	12,334	-	-	-	121,157
Deposits	-	-	-	1,025	-	1,025
Deferred revenue:						
Succeeding year property tax	1,989,780	-	346,000	-	399,199	2,734,979
Interfund payable	-	-	-	-	681,637	681,637
Compensated absences payable	111,572	18,653	-	-	-	130,225
<b>Total liabilities</b>	<b>2,331,153</b>	<b>46,020</b>	<b>346,000</b>	<b>494,867</b>	<b>1,082,083</b>	<b>4,300,123</b>
Fund balances:						
Reserved for:						
Debt Service	-	-	140,391	-	-	140,391
Permanent Trust	-	-	-	-	190,000	190,000
Other Special Purposes	-	949,036	-	-	300,213	1,249,249
Unreserved	1,340,917	-	-	708,274	(397,751)	1,651,440
<b>Total fund balances</b>	<b>1,340,917</b>	<b>949,036</b>	<b>140,391</b>	<b>708,274</b>	<b>92,462</b>	<b>3,231,080</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,672,070</b>	<b>995,056</b>	<b>486,391</b>	<b>1,203,141</b>	<b>1,174,545</b>	<b>7,531,203</b>

See notes to financial statements.

CITY OF PELLA, IOWA  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2004

**Total fund balances of governmental funds (pg. 18)** \$ 3,231,080

***Amounts reported for governmental activities in the  
statement of net assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 24,284,761

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds. (46,024)

Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. (13,404,942)

**Net assets of governmental activities (pg. 15)** \$ 14,064,875

See notes to financial statements.

## Exhibit E

CITY OF PELLA, IOWA  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 Year Ended June 30, 2004

	Major Funds				Nonmajor	
	General	Special Revenue- Road Use	Debt Service	Capital Projects	Other Governmental Funds	Totals
Revenues:						
Property taxes	\$ 1,919,301	-	553,213	-	365,444	2,837,958
TIF revenues	-	-	-	-	1,444,657	1,444,657
Local option sales tax	-	-	-	-	851,409	851,409
Other city taxes	367,213	-	-	-	-	367,213
Licenses and permits	20,427	-	-	-	-	20,427
Use of money and property	33,380	30,410	4,797	30,555	21,277	120,419
Intergovernmental	599,952	823,813	46,365	216,902	-	1,687,032
Charges for services	247,926	1,155	-	-	2,411	251,492
Miscellaneous	244,574	34,985	-	10,986	225,497	516,042
Total revenues	3,432,773	890,363	604,375	258,443	2,910,695	8,096,649
Expenditures:						
Current operating:						
Public safety	1,148,456	-	-	-	-	1,148,456
Culture and recreation	1,431,482	-	-	-	60,252	1,491,734
Public works	171,613	705,898	-	-	40,564	918,075
Community and economic development	89,507	-	-	173,245	-	262,752
General government	666,256	-	-	-	-	666,256
Debt service	-	-	1,743,005	-	-	1,743,005
Capital projects	-	-	-	3,205,314	-	3,205,314
Total expenditures	3,507,314	705,898	1,743,005	3,378,559	100,816	9,435,592
Excess (deficiency) of revenues over (under) expenditures	(74,541)	184,465	(1,138,630)	(3,120,116)	2,809,879	(1,338,943)
Other financing sources (uses):						
Operating transfers to, in	423,168	-	1,062,533	2,234,598	2,812	3,723,111
Operating transfers from, (out)	(77,326)	(164,000)	-	(6)	(3,460,732)	(3,702,064)
Loss on investments	-	-	-	-	(3,954)	(3,954)
Total other financing sources (uses)	345,842	(164,000)	1,062,533	2,234,592	(3,461,874)	17,093
Net change in fund balances	271,301	20,465	(76,097)	(885,524)	(651,995)	(1,321,850)
Balance beginning of year (as restated in note 18)	1,069,616	928,571	216,488	1,593,798	744,457	4,552,930
Balance end of year	\$ 1,340,917	949,036	140,391	708,274	92,462	3,231,080

See notes to financial statements.

CITY OF PELLA, IOWA  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 Year ended June 30, 2004

**Net change in fund balances - total governmental funds (pg. 20)** \$ (1,321,850)

***Amounts reported for governmental activities in the  
 statement of activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 2,862,119	
Depreciation expense	<u>(863,667)</u>	1,998,452

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

1,145,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrued regardless of when it is due.

3,938

Compensated absences reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

(104,942)

**Change in net assets of governmental activities (pg. 17)**

\$ 1,720,598

See notes to financial statements.

CITY OF PELLA, IOWA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2004

	Enterprise Funds	Internal Service Funds	Total Proprietary Funds
<b>Assets</b>			
Current assets:			
Cash and pooled investments	\$ 8,860,464	487,439	9,347,903
Receivables:			
Property tax:			
Accrued interest	29,989	578	30,567
Trade (net of allowance for uncollectible)	1,489,983	-	1,489,983
Interfund receivable	144,391	-	144,391
Inventories	702,416	-	702,416
SO2 credits	808,515	-	808,515
Restricted assets,(cash and pooled investments)	7,867,572	-	7,867,572
Total current assets	19,903,330	488,017	20,391,347
Non-current assets:			
Land, wastewater rights and infrastructure	15,412,797	-	15,412,797
Depreciable buildings, property, equipment and infrastructure, net	38,275,546	-	38,275,546
Deferred charge (issuance costs)	252,955	-	252,955
Total non-current assets	53,941,298	-	53,941,298
<b>Total assets</b>	<b>\$ 73,844,628</b>	<b>488,017</b>	<b>74,332,645</b>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 1,314,992	72,484	1,387,476
Salaries and benefits payable	82,796	-	82,796
Compensated absences payable	128,447	-	128,447
Accrued interest payable	93,451	-	93,451
Deposits	8,197	-	8,197
Long-term debt - due within one year	1,780,000	-	1,780,000
Total current liabilities	3,407,883	72,484	3,480,367
Long-term liabilities (net of current portion):			
Compensated absences payable	114,395	-	114,395
General obligation bonds payable (net of unamortized discount)	1,300,000	-	1,300,000
Revenue bonds payable (net of unamortized discount)	21,635,726	-	21,635,726
Total long-term liabilities	23,050,121	-	23,050,121
<b>Total liabilities</b>	<b>26,458,004</b>	<b>72,484</b>	<b>26,530,488</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	28,972,617	-	28,972,617
Restricted for debt service and improvements	7,859,375	-	7,859,375
Restricted other	8,197	-	8,197
Unrestricted	10,546,435	415,533	10,961,968
<b>Total net assets</b>	<b>\$ 47,386,624</b>	<b>415,533</b>	<b>47,802,157</b>

See notes to financial statements

CITY OF PELLA, IOWA  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUNDS  
 June 30, 2004

	Enterprise Funds	Internal Service Funds	Total Proprietary Funds
Operating revenues:			
Utility service charges	\$ 16,941,009	-	16,941,009
Internal service charges	-	897,089	897,089
Total revenues	16,941,009	897,089	17,838,098
Operating expenses:			
Personnel services	2,040,927	-	2,040,927
Contractual	334,797	144,511	479,308
Franchise fees	81,510	-	81,510
Materials and Supplies	6,585,710	-	6,585,710
Purchased power	2,605,093	-	2,605,093
Payments in lieu of taxes	476,930	-	476,930
Depreciation	1,752,035	-	1,752,035
Claims expense	-	430,499	430,499
Total operating expenses	13,877,002	575,010	14,452,012
Operating income	3,064,007	322,079	3,386,086
Non-operating revenues (expenses):			
Payments in lieu of services	(118,088)	-	(118,088)
Long term debt costs and interest	(1,048,858)	-	(1,048,858)
Investment earnings	234,563	4,300	238,863
Sales of fixed assets	18,712	-	18,712
Other revenues	303,312	-	303,312
Total non-operating revenues	(610,359)	4,300	(606,059)
Income before operating transfers	2,453,648	326,379	2,780,027
Transfers in	75,000	28,331	103,331
Transfers (out)	(122,698)	(1,680)	(124,378)
Net transfers	(47,698)	26,651	(21,047)
Change in net assets	2,405,950	353,030	2,758,980
Net assets beginning of year, as restated (note 18)	44,980,674	62,503	45,043,177
Net assets end of year	\$ 47,386,624	415,533	47,802,157

See notes to financial statements.

## Exhibit I

CITY OF PELLA, IOWA  
 COMBINING STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 Year Ended June 30, 2004

	Enterprise Funds	Internal Service Funds	Total Proprietary Funds
Cash flows from operating activities:			
Cash received from customers	\$ 16,888,770	-	16,888,770
Cash received from internal service charges	-	1,002,637	1,002,637
Cash payments to employees for services	(1,960,508)	-	(1,960,508)
Cash payments for goods and services	(9,922,187)	(687,491)	(10,609,678)
Net cash provided by operating activities	5,006,075	315,146	5,321,221
Cash flows from non capital financing activities:			
Miscellaneous receipts	71,927	-	71,927
Special assessments/other gov't payments	453	-	453
Replacement tax, transfers	(118,088)	-	(118,088)
Decrease in interfund receivable	24,846	-	24,846
Transfers in	75,000	28,331	103,331
Transfers (out)	(122,698)	(1,680)	(124,378)
Net cash provided (used) by non capital financing activities	(68,560)	26,651	(41,909)
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(3,050,393)	-	(3,050,393)
Principal paid on long-term debt and refunding	(2,033,000)	-	(2,033,000)
Principal paid on early retirement of bond	(2,930,000)	-	(2,930,000)
Interest and other long-term debt cost	(1,046,694)	-	(1,046,694)
Discounts paid on new issue	(46,671)	-	(46,671)
Issuance costs paid on new issue	(99,602)	-	(99,602)
Proceeds from sale of capital asset	18,712	-	18,712
Long-term debt proceeds	6,000,000	-	6,000,000
Net cash used by capital and related financing activities	(3,187,648)	-	(3,187,648)
Cash flows from investing activities:			
Proceeds to investments	(673,905)	(237,780)	(911,685)
Investment income	254,460	4145	258,605
Net cash provided by investing activities	(419,445)	(233,635)	(653,080)
Net increase in cash and cash equivalents	1,330,422	108,162	1,438,584
Cash and cash equivalents at beginning of year	3,064,228	141,497	3,205,725
Cash and cash equivalents at end of year	\$ 4,394,650	249,659	4,644,309

## Exhibit I

CITY OF PELLA, IOWA  
 COMBINING STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 Year Ended June 30, 2004

	Enterprise Funds	Internal Service Funds	Total Proprietary Funds
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 3,064,007	322,079	3,386,086
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	1,752,035	-	1,752,035
Change in assets and liabilities:			
(Increase) decrease in receivables	(58,813)	105,548	46,735
(Increase) in inventory	(10,493)	-	(10,493)
Increase (decrease) in accounts payable	172,346	(112,481)	59,865
Increase in accrued expenses	9,700	-	9,700
Increase in compensated absences	70,719	-	70,719
Increase in deposits held	6,574	-	6,574
Net cash provided by operating activities	\$ 5,006,075	315,146	5,321,221
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on the combining balance sheet:</b>			
Current assets:			
Cash and investments	\$ 16,728,036	487,439	17,215,475
Less items not meeting definition of cash equivalent:			
Certificates of deposit	(9,760,149)	(188,170)	(9,948,319)
Iowa Public Agency Investment Trust	(172,420)	(3,324)	(175,744)
Money market fund	(2,400,818)	(46,286)	(2,447,104)
	(12,333,387)	(237,780)	(12,571,167)
Cash and cash equivalents at year end	\$ 4,394,649	249,659	4,644,308

See notes to financial statements.

CITY OF PELLA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

(1) **Summary of Significant Accounting Policies**

The City of Pella, Iowa is a political subdivision of the State of Iowa located in Marion County. It was incorporated in 1868 and operates under the Home Rule Provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety (police and fire), public works, wastewater, water, electricity, culture, recreation, planning and zoning, public improvements and general administrative services.

The financial statements of the City of Pella, Iowa, are prepared in accordance with U.S. generally accepted Accounting Principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

A. Reporting Entity

For financial reporting purposes, the City of Pella has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Pella has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide financial statements - The statement of net assets and the statement of activities report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The statement of net assets presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other Non-Major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including Public Safety, Public Works, Health and Social Services, Culture and Recreation, Community and Economic Development, and General Government.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

Additionally, the City reports the following major proprietary funds:

The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges. The following are the enterprise funds of the City:

Water Utility - The water utility accounts for the operation of a municipally owned water system, which provides services to the residents of the City.

Sewer Utility - The sewer utility accounts for the operation of a municipally owned sewage collection and treatment facility, which provides services to the residents of the City.

Sanitation Utility - The sanitation utility accounts for the operation of a sanitation collection system, which provides services to the residents of the City.

Electric Utility - The electric utility accounts for the operation of a municipally owned electric system which provides service to the residents of the City.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

The Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

The following types of nonmajor governmental funds are grouped for financial statement reporting purposes:

The Special Revenue funds receive proceeds from specific revenue sources that are legally restricted to expenditures for specific purposes.

The Permanent funds resources are restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government's programs. That is, for the benefit of the government or its citizenry.

C. Measurement Focus and Basis of Accounting

**Government-wide Financial Statements**

The government-wide financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or identifiable activity. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business type activities, which are presented as internal balances and eliminated in the total primary governmental column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business type activities have not been eliminated.

**Governmental Fund Financial Statements**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or 60 days thereafter to pay liabilities of the current period.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

## CITY OF PELLA, IOWA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt and claims and judgments are recognized as expenditures only when incurred. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

#### **Proprietary Fund Financial Statements**

Proprietary Fund Financial Statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and nonmajor funds aggregated. A column representing internal service funds is also presented in these statements.

The proprietary fund of the City applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds are accounted for using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increase (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses are those that are directly related to generation, purchase and distribution of the utility products or services. Revenues and expenses related to financing and other activities are reflected as non-operating.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

#### **D. Assets, Liabilities and Fund Equity**

**Cash, Pooled Investments and Cash Equivalents** - The cash balances of most City funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flow, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

CITY OF PELLA, IOWA  
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Inventories - Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary fund inventories are recorded at the lower of cost or market on a first-in, first-out basis.

Property Taxes Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting. Property taxes receivable represent taxes received by or expected to be received within 60 days after year end.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represent taxes collected by the County but not remitted to the City at June 30, 2004 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2003.

Restricted Net Assets – In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Use of Restricted/Unrestricted Net Assets - When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

Capitalized Interest - Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Capital improvements made in the water and sewer funds were funded through interfund transfers, no interest on debt was incurred or capitalized. Capital improvements in the electric fund were funded through electric revenue bonds. Interest costs of \$60,388 related to the debt were capitalized.

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

CITY OF PELLA, IOWA

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All vested vacation leave is in current compensated absences. In accordance with the provisions of Governmental Accounting Standards Board Statement 16, "Accounting for Compensated Absences," no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. One year sick pay allocation is included in current compensated absences. Sick pay which has built up in an employees account, but is not expected to be paid in the current year is in long-term compensated absences. Liabilities have been computed based on rates of pay as of June 30, 2004.

Long-term obligations – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balances are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Deficit Fund Balance - The Special Revenue Funds financed with Tax Increment Financing - Bos Landen and the Pella Business Corridor - both continue to operate in a deficit situation. Bos Landen had negative net assets of \$143,923; the Pella Business Corridor has negative net assets of \$462,840. The deficits are due to interfund payables. While the City intends to pay back the interfund payable from future TIF revenues.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

In accordance with the Code of Iowa, the City Council annually adopts a budget following required public notice and hearing for all funds, except Trust funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Legally adopted budgets may be prepared on a cash basis or on a basis consistent with U.S. generally accepted accounting principals.

Formal and legal budgetary control is based upon ten major classes of disbursements, known as functions, not by fund or fund type. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program.

(2) **Cash and Pooled Investments**

The City's deposits at June 30, 2004 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the City or the City's agent in the City's name, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's reporting entity considers highly liquid investment (including restricted assets) with an original maturity of less than three months when purchased to be cash equivalents.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all category 1 which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments at June 30, 2004 are as follows:

Type	Carrying Amount	Market Value
Certificates of deposit	\$ 12,023,289	12,023,289
Iowa Public Agency Investment Trust	212,329	212,329
Money Market Fund	2,958,592	2,958,592
Treasury Bonds	13,488	13,488
Federal Home Loan Bank Bond	32,466	32,466
Government Mutual Fund	2,921	2,921
Total	<u>\$ 15,243,085</u>	<u>15,243,085</u>

The City had investments in the Iowa Public Agency Investment Trust which are valued for all funds at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940. At June 30, 2004, the amortized cost was \$212,329. This investment is not subject to risk categorization.

**(3) Trade Accounts Receivable and Allowance for Uncollectibles**

Utility revenue is recorded when earned. Customers are billed monthly. The City Municipal Water, Sewer, Sanitation, and Electric Utility's trade accounts receivable is based on actual customer billings. If a customer defaults on their bill, current policy does not remove their balance or details from accounts receivable. The idea being, if that same party seeks utility service from one of the municipal utilities it will not be provided until the old bill is paid. To compensate for these uncollectible balances, the allowance for uncollectible accounts includes 100% of accounts more than 60 days old and 50% of accounts more than 30 days old. An allowance for uncollectibles has been calculated for the following enterprise funds: Electric, Water, Sewer and Sanitation. Amounts are as follows: \$203,289, \$34,030, \$36,652 and \$24,877, respectively.

**(4) Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF PELLA, IOWA  
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**(5) Interfund Receivables/Payables**

Since July 1, 2001 interfund receivables have accrued interest at a rate of 6% compounded annually.

The detail of interfund receivables/payable for the year ended June 30, 2004 is as follows:

<u>Receivable to:</u>	<u>Payable from:</u>	<u>Amount</u>
Electric Fund	Bos Landen TIF	\$144,391
Road Use Fund	Pella Business Corridor TIF	537,246

Interfund payables are expected to be paid from future TIF revenues and are not expected to be paid within one year.

**(6) Transfers to/from Other Funds**

The details of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer in</u>	<u>Transfer (out)</u>	<u>Amount</u>
Capital	Local sales tax - Special Revenue	\$ 1,685,000
Capital	Road use - Special Revenue	164,000
Debt Service	Local sales tax - Special Revenue	50,000
General	Police Pension - Special Revenue	11
General	Police Asset Forfeiture - Special Revenue	2,385
General	Lighting - Special Revenue	251
General	Sesquicentennial - Special Revenue	588
General	Capital	3
General	Capital	3
General	Internal Service - Proprietary	1,680
J. Kuiper - Special Revenue	Leisure Services - Special Revenue	427
Capital	General	46,610
General	Employee Benefits - Special Revenue	365,837
General	Sanitation	52,410
Debt Service	Bos Landen-TIF - Special Revenue	490,533
Debt Service	Pella Business Corridor-TIF - Special Revenue	522,000
Police Asset Forfeiture - Special Revenue	General	2,385
Capital	Wastewater	19,368
Capital	Electric	31,553
Capital	High Point-TIF - Special Revenue	7,700
Capital	Pella Business Corridor-TIF - Special Revenue	261,000
Wastewater	Pella Business Corridor-TIF - Special Revenue	75,000
Capital	Water	19,367
Internal Service	General	28,331

Transfers to/from other funds as reported in these financial statements include transfers between funds of the City of Pella. Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

**(7) Capital Assets**

Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the City as assets with an initial, individual cost in excess of \$5,000, or lower if they want to specifically track and identify the asset such as computer purchases, and estimated useful lives in excess of two years.

Capital assets depreciated using the straight line method of depreciation over the following estimated useful lives in years, are as follows:

Roads	20-50
Sewer, Water and Drainage Systems	25-75
Buildings	40
Improvements	25-35
Furniture, fixtures, and equipment	5-35
Vehicles	5-7

In June, 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. The Statement allows a delay of up to 4 years for recognizing past acquisitions of infrastructure if the cost of determining that figure is prohibitive within the current year. The City has elected to take that time to try to internally determine original costs of infrastructure and save the cost of hiring an outside party to estimate its value. As such, only current additions of infrastructure have been added this year.

CITY OF PELLA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

Capital assets activity for the year ended June 30, 2004 is as follows:

**Governmental activities:**

	Adjusted Balance 6/30/2003	Additions	Deletions and Transfers	Ending Balance 6/30/2004
Capital assets not being depreciated:				
Land	\$ 2,513,114			2,513,114
Construction in progress:				
Aquatic Center	329,990	2,597,881		2,927,871
Jet A Fuel System	3,568	7,638	11,206	-
Hazel/Vermeer St. Project	750,597	31,573	782,170	-
Utility Billing and Financial System		52,984		52,984
Airport Turnaround extension		991		991
Brush Chipper		456		456
Total capital assets not being depreciated	3,597,269	2,691,523	793,376	5,495,416
Capital assets being depreciated:				
Buildings and improvements	18,419,206			18,419,206
Machinery and equipment	6,668,525	77,755		6,746,280
Infrastructure	1,031,590	886,217		1,917,807
Total capital assets being depreciated	26,119,321	963,972	-	27,083,293
Less accumulated depreciation for:				
Buildings and improvements	2,047,377	468,152		2,515,529
Machinery and equipment	5,370,009	359,182		5,729,191
Infrastructure	12,895	36,333		49,228
Total accumulated depreciation	7,430,281	863,667	-	8,293,948
Total capital assets being depreciated net	18,689,040	100,305	-	18,789,345
Governmental activities capital assets, net	\$ 22,286,309	2,791,828	793,376	24,284,761

CITY OF PELLA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

**Business type activities:**

	Beginning Balance 6/30/2003	Additions	Deletions and Transfers	Ending Balance 6/30/2004
<b>Water Fund</b>				
Capital assets not being depreciated:				
Land	\$ 118,360			118,360
Construction in progress:				
Jordan Well	51,799	8,060	59,859	-
Collector Well	382,487	39,809	422,296	-
Chlorine Meter	-	4,610		4,610
Total capital assets not being depreciated	552,646	52,479	482,155	122,970
Capital assets being depreciated:				
Buildings and improvements	9,462,517	53,436		9,515,953
Machinery and equipment	120,866			120,866
Furniture and fixtures	1,079			1,079
Vehicles	78,098			78,098
Infrastructure	670,855	496,354		1,167,209
Total capital assets being depreciated	10,333,415	549,790	-	10,883,205
Less accumulated depreciation for:				
Buildings and improvements	3,708,894	245,121		3,954,015
Machinery and equipment	93,602	9,416		103,018
Furniture and fixtures	1,079			1,079
Vehicles	70,571	2,151		72,722
Infrastructure	28,502	32,750		61,252
Total accumulated depreciation	3,902,648	289,438	-	4,192,086
Total capital assets being depreciated net	6,430,767	260,352	-	6,691,119
Business type activity-water-capital assets net	\$ 6,983,413	312,831	482,155	6,814,089

CITY OF PELLA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

	Beginning Balance 6/30/2003	Additions	Deletions and Transfers	Ending Balance 6/30/2004
<b>Sewer Fund</b>				
Capital assets not being depreciated:				
Land	\$ 907,049			907,049
Construction in progress:				
SW Truckline	2,949,334	97,810	3,047,144	-
Aeriation/Diffuser Project	7,500	3,863	11,363	-
Total capital assets not being depreciated	3,863,883	101,673	3,058,507	907,049
Capital assets being depreciated:				
Buildings and improvements	16,720,245			16,720,245
Machinery and equipment	668,379	21,265		689,644
Furniture and fixtures	4,604			4,604
Vehicles	61,994			61,994
Infrastructure	3,944,892	3,047,144		6,992,036
Total capital assets being depreciated	\$ 21,400,114	3,068,409	-	24,468,523
Less accumulated depreciation for:				
Buildings and improvements	8,564,356	435,876		9,000,232
Machinery and equipment	424,916	44,930		469,846
Furniture and fixtures	4,604			4,604
Vehicles	52,021	3,985		56,006
Infrastructure	250,745	168,118		418,863
Total accumulated depreciation	9,296,642	652,909	-	9,949,551
Total capital assets being depreciated net	12,103,472	2,415,500	-	14,518,972
Business type activity-sewer- capital assets, net	\$ 15,967,355	2,517,173	3,058,507	15,426,021

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

	Beginning Balance 6/30/2003	Additions	Deletions and Transfers	Ending Balance 6/30/2004
<b>Electric Fund</b>				
Capital assets not being depreciated:				
Land	\$ 136,234			136,234
Construction in progress:				
Diesel Plant	9,978,915	202,101		10,181,016
Council Bluffs Unit Four	225,000	1,901,955		2,126,955
Middle S/SE Conversion	1,727,394	211,179		1,938,573
Vehicles-Derrick Truck	27	133,602	133,629	-
Total capital assets not being depreciated	12,067,570	2,448,837	133,629	14,382,778
Capital assets being depreciated:				
Buildings and improvements	9,931,156	45,386		9,976,542
Machinery and equipment	20,713,219	41,337	517	20,754,039
Furniture and fixtures	39,717			39,717
Vehicles	338,709	133,629	93,887	378,451
Total capital assets being depreciated	\$ 31,022,801	220,352	94,404	31,148,749
Less accumulated depreciation for:				
Buildings and improvements	8,731,240	45,135		8,776,375
Machinery and equipment	4,276,402	742,389	517	5,018,274
Furniture and fixtures	39,717			39,717
Vehicles	320,651	22,164	93,887	248,928
Total accumulated depreciation	13,368,010	809,688	94,404	14,083,294
Total capital assets being depreciated net	17,654,791	(589,336)	-	17,065,455
Business type activity-electric-capital assets net	\$ 29,722,361	1,859,501	133,629	31,448,233

Depreciation was charged by the City as follows:

Governmental activities:	
General Government	\$ 164,019
Public Safety	93,455
Public Works	189,335
Culture and recreation	416,858
	<u>863,667</u>
Unallocated depreciation	-
Total governmental activities depreciation expense	<u>\$ 863,667</u>
Business type activities:	
Water	\$ 289,438
Sewer	652,909
Electric	809,688
	<u>\$ 1,752,035</u>

CITY OF PELLA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

**(8) Long-Term Liabilities**

The City currently has long-term debt obligations in the form of general obligation bonds, capital loans and revenue bonds. The City does not have any special assessment debt. The following is a summary of long-term obligation transactions of the City of Pella for the year ended June 30, 2004:

	Balance 7/1/2003	Incurred	Satisfied	Balance 6/30/2004	Amounts Due Within One Year	Amounts Due in More than One Year
<b>Governmental Activities:</b>						
Capital loans payable	\$ 350,000	-	(50,000)	300,000	75,000	225,000
General obligation bonds payable	14,095,000	-	(1,095,000)	13,000,000	1,165,000	11,835,000
<b>Total governmental activities</b>	<b>\$ 14,445,000</b>	<b>-</b>	<b>(1,145,000)</b>	<b>13,300,000</b>	<b>1,240,000</b>	<b>12,060,000</b>
<b>Business type Activities:</b>						
General obligation bonds payable	\$ 2,010,000	-	(335,000)	1,675,000	375,000	1,300,000
Revenue bonds payable	21,843,000	6,000,000	(4,628,000)	23,215,000	1,390,000	21,825,000
Total	23,853,000	6,000,000	(4,963,000)	24,890,000	1,765,000	23,125,000
Unamortized discount	(182,007)	(46,671)	54,404	(174,274)	-	(174,274)
<b>Total business type activities</b>	<b>\$ 23,670,993</b>	<b>5,953,329</b>	<b>(4,908,596)</b>	<b>24,715,726</b>	<b>1,765,000</b>	<b>22,950,726</b>

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. These bonds therefore are reported in the proprietary funds if they are expected to be repaid from proprietary revenues. General obligation bonds are direct obligations and pledge the full faith and credit of the City. General obligation bonds outstanding net of unamortized discount of \$11,723 at June 30, 2004 are as follows:

Purpose	Date of Issue	Interest Rates	Amount Originally Issued	Outstanding June 30, 2004
General Government G/O	1999	4.90-5.50%	\$ 2,610,000	2,290,000
General Government G/O	1997	4.00-5.00%	3,360,000	2,565,000
General Government G/O	2000	5.25-5.65%	1,800,000	1,675,000
General Government G/O	2001	3.40-4.15%	2,360,000	1,850,000
Proprietary-Sewer G/O	2001	4.00-4.75%	1,505,000	1,405,000
General Government G/O	2002	1.60-3.25%	1,600,000	1,280,000
Proprietary-Water G/O	2003	1.30-3.50%	555,000	270,000
General Government G/O	2003	1.30-3.50%	1,370,000	1,140,000
General Government G/O	2003	2.00-3.50%	2,300,000	2,200,000
			17,460,000	14,675,000
Unamortized discount			(36,490)	(11,723)
General obligation bonds net of unamortized discounts			<u>\$ 17,423,510</u>	<u>14,663,277</u>

CITY OF PELLA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

Annual debt service requirements to maturity for general obligation bonds is as follows:

Year ending June 30,	Enterprise Funds				General			
	Water		Sewer		Debt		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 270,000	6,357	105,000	61,270	1,165,000	531,526	1,540,000	599,153
2006	-	-	105,000	57,070	1,100,000	498,925	1,205,000	555,995
2007	-	-	110,000	52,870	1,255,000	462,138	1,365,000	515,008
2008	-	-	115,000	48,470	1,285,000	417,381	1,400,000	465,851
2009	-	-	120,000	43,755	1,355,000	369,144	1,475,000	412,899
Thereafter	-	-	850,000	143,245	6,840,000	1,487,335	7,690,000	1,630,580
Total	\$ 270,000	6,357	1,405,000	406,680	13,000,000	3,766,449	14,675,000	4,179,486

General obligation bonds may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of the redemption by registered mail to the registered owner of the bond. The dates at which the various general obligation bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
General Government G/O	1999	\$ 2,610,000	June 1, 2008
General Government G/O	1997	3,360,000	June 1, 2006
General Government G/O	2000	1,800,000	Not subject to call
General Government G/O	2001	2,360,000	June 1, 2008
Proprietary-Sewer G/O	2001	1,505,000	June 1, 2009
General Government G/O	2002	1,600,000	Not subject to call
Proprietary-Water G/O	2003	555,000	June 1, 2008
General Government G/O	2003	1,370,000	June 1, 2008
General Government G/O	2003	2,300,000	June 1, 2015

The following is a summary of the transactions for the general obligation bonds of the City for the year ended June 30, 2004:

	Balance 7/1/2003	Additions	Reductions	Balance 6/30/2004
General Obligation Bonds	\$ 16,105,000	-	1,430,000	14,675,000
Unamortized discount	(12,773)	-	(1,050)	(11,723)
Net General Obligation Bonds	\$ 16,092,227	-	1,428,950	14,663,277

### Capital Loan Notes

The City acquired a capital loan in 1994 to provide funds for the acquisition of capital assets for the Bos Landen Urban renewal project. Capital loan notes currently outstanding are as follows:

Purpose	Date of Issue	Interest Rates	Originally Issued	Outstanding 6/30/2004
TIF Urban Renewal	1994	5.35-6.30%	\$ 550,000	300,000
Total			\$ 550,000	300,000

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June 30, 2004

Annual debt service requirements to maturity for capital loan notes are as follows:

Year ended June 30,	General Long-Term Debt Account Group	
	Principal	Interest
2005	\$ 75,000	18,450
2006	75,000	13,950
2007	75,000	9,375
2008	75,000	4,725
Total	<u>\$ 300,000</u>	<u>46,500</u>

Capital loan notes may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of the redemption by registered mail to the registered owner of the bond. The dates at which the various capital loan notes may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
TIF Urban Renewal	1994	\$ 550,000	June 1, 2004

The following is a summary of the transactions for the capital loan notes of the City for the year ended June 30, 2004:

	Balance 7/1/2003	Additions	Reductions	Balance 6/30/2004
Capital Loan Notes	<u>\$ 350,000</u>	<u>-</u>	<u>50,000</u>	<u>300,000</u>

### Revenue Bonds

The City has issued bonds whereby the City pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding, for the water, sewer, and electric utilities, net of unamortized discounts of \$162,551 at June 30, 2004, are as follows:

Purpose	Date of Issue	Interest Rates	Originally Issued	Outstanding 6/30/2004
Water	1995	5.20-6.00%	\$ 3,600,000	3,165,000
Electric	1996	3.70-4.90%	5,735,000	-
Electric Refunding	1999	3.60-4.10%	3,755,000	1,220,000
Sewer Improvements	1999	3.92%	2,800,000	2,504,000
Sewer Improvements	2000	4.30%	1,604,000	1,440,000
Sewer Improvements	2000	4.30%	641,000	481,000
Electric	2001	4.00-4.625%	9,000,000	7,405,000
Water	2003	2.10-3.90%	1,000,000	1,000,000
Electric	2004	3.25-3.90%	6,000,000	6,000,000
			<u>34,135,000</u>	<u>23,215,000</u>
Unamortized discount			<u>(306,976)</u>	<u>(162,551)</u>
Net Revenue bonds			<u>\$ 33,828,024</u>	<u>23,052,449</u>

CITY OF PELLA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

Annual debt service requirements to maturity for revenue bonds are as follows:

Year ended June 30,	Enterprise Funds						Total	
	Water		Sewer		Electric		Principal	Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2005	\$ 75,000	217,187	185,000	180,760	1,145,000	621,710	1,405,000	1,019,657
2006	330,000	213,063	194,000	173,208	1,195,000	539,464	1,719,000	925,735
2007	345,000	198,142	202,000	165,287	765,000	490,327	1,312,000	853,756
2008	365,000	181,973	208,000	157,038	795,000	459,772	1,368,000	798,783
2009	385,000	164,067	217,000	148,547	825,000	428,077	1,427,000	740,691
Thereafter	2,665,000	522,155	3,419,000	974,589	9,900,000	2,169,325	15,984,000	3,666,069
Total	\$ 4,165,000	1,496,587	4,425,000	1,799,429	14,625,000	4,708,675	23,215,000	8,004,691

Revenue bonds may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of redemption by registered mail to the registered owner of the bond. The dates at which the various revenue bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
Water	1995	\$ 3,600,000	June 1, 2008
Electric Refunding	1999	3,755,000	Not subject to call
Sewer Improvements	1999	2,800,000	Dec. 15, 2009
Sewer Improvements	2000	1,604,000	Dec. 15, 2009
Sewer Improvements	2000	641,000	Dec. 15, 2009
Electric	2001	9,000,000	Not subject to call
Water	2003	1,000,000	June 1, 2009
Electric	2004	6,000,000	June 1, 2012

The following is a summary of the transactions for revenue bonds, net of unamortized discounts, for the water, sewer, and electric utilities for the year ended June 30, 2004:

	Balance 7/1/2003	Additions	Reductions	Balance 6/30/2004
Water revenue bonds	\$ 4,225,000	-	60,000	4,165,000
Unamortized discount	(45,255)	-	3,944	(41,311)
Net water revenue bonds	4,179,745	-	63,944	4,123,689
Sewer revenue bonds	4,603,000	-	178,000	4,425,000
Net sewer revenue bonds	4,603,000	-	178,000	4,425,000
Electric revenue bonds	13,015,000	6,000,000	4,390,000	14,625,000
Unamortized discount	(123,979)	(46,671)	49,410	(121,240)
Net electric revenue bonds	12,891,021	5,953,329	4,340,590	14,503,760
Total net revenue bonds	\$ 21,673,766	5,953,329	4,582,534	23,052,449

CITY OF PELLA, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Long-term compensated absences represent the vested sick pay an employee would receive if they left employment. No employees with vested sick pay are expected to leave, so all time over the current year's allocation is considered long-term. Long-term compensated absences are as follows:

	Balance 7/1/2003	Additions	Reductions	Balance 6/30/2004
Long-term compensated absences				
Governmental	\$ -	104,942	-	104,942
Water	-	36,925	-	36,925
Sewer	-	26,162	-	26,162
Electric	-	51,231	-	51,231
Sanitation	-	77	-	77
Total long-term compensated absences	\$ -	219,337	-	219,337

Bond discounts and issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable whereas issuance costs are recorded as deferred charges. The details of the bond discounts are listed in the previous schedules. The unamortized issuances costs are listed as an asset on the balance sheet. The issuance costs are amortized over the life of the loan and are included in interest and debt costs. Issuance costs detail is as follows:

	Balance 7/1/2003	Incurred	Amortized	Balance 6/30/2004
<b>Business type Activities:</b>				
Sewer general obligation bond	\$ 13,854	-	(1,154)	12,700
Sewer SFR Loan	55,376	-	(3,258)	52,118
Water revenue bonds	52,331	-	(4,481)	47,850
Electric revenue bonds	60,567	99,602	(19,882)	140,287
Total deferred issuance costs	\$ 182,128	99,602	(28,775)	252,955

(9) **Contingent Liabilities**

In connection with the normal conduct of its affairs, the Municipal Utility is involved in various claims, litigations and judgements. It is expected that the final settlement of these matters will not materially affect the financial statements of the Utility.

A construction problem has developed at the Diesel Plant resulting in cracks in the concrete flooring. The cause of the cracking is currently under investigation, and it is expected that these problems will be resolved. If those cracks were to go through the containment chambers there would be additional exposure to environmental liabilities. It is expected that the cause of these cracks will be determined and resolved by the contractor in question.

CITY OF PELLA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

**(10) Risk Management**

Insurance - The City of Pella is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the current year or the three prior periods.

Self-Insured Health Care Plan - The City of Pella has a self-insured health care plan for City employees. A fixed monthly fee per participating employee is paid to an insurance administrative company to administer the plan and evaluate claims.

The City escrows funds from each month to be used to pay medical claims incurred. The maximum exposure to the city for claims incurred is limited by the "stop-loss" feature of the plan. The maximum exposure for one individual in a twelve month period is \$50,000, and the maximum exposure for the group as a whole is a computed amount based on 120 percent of the actuarially computed expected claims for the group. Claims in excess of the stop-loss ceilings are paid by the stop-loss insurance company.

At June 30, 2004, the plan held \$487,439 in cash and pooled investments. The actuarial estimate of the reserves necessary for claims incurred but not yet paid was \$70,187, which is recorded in the accounts payable balance of the Internal Service Fund.

**(11) Construction Contracts**

The City entered into various contracts totaling \$228,820 for an airport turnaround extension, \$2,357,735 for the Aquatic Center and \$83,990 to purchase a new Utility Billing System. At June 30, 2004, \$15,764 of the airport turnaround extension, \$1,793,027 of the Aquatic Center and \$49,385 of the Utility Billing System had been paid towards these contracts. The remaining amounts of the contracts will be paid as work on the projects progresses. Additional costs for capitalized interest and non-contract related costs are included in total costs for the project in the construction in progress schedule.

The City Municipal Electric Utility entered into various contracts totaling \$9,042,356 for a Diesel Plant and \$16,158,900 for CB4. At June 30, 2004, \$8,604,788 of the Diesel Plant and \$2,107,000 of CB4 were paid against these contracts. Additional costs for land and capitalized interest, unrelated to construction contracts, are included in the total costs for the projects in the construction in progress schedule. The remaining amounts of the contracts will be paid as work on the projects progresses.

**(12) Fund Reclassification**

Prior to GASB34, funds considered trust funds were divided into expendable and nonexpendable trust categories. That terminology no longer exists. The expendable funds have now been included with the other nonmajor Special Revenue funds. The nonexpendable funds are now included in Permanent funds. Both of these fund types are included under governmental funds since they are all used for the benefit of the government or its citizenry. Permanent funds are defined as resources which are legally restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government's programs. That is, for the benefit of the government or its citizenry. The beginning fund balance in the expendable and nonexpendable trust fund was \$260,897 and \$60,181 respectively. These balances are now included in the total beginning governmental fund balance.

CITY OF PELLA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

**(13) Retirement Plans**

Iowa Public Employees Retirement System - The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The City of Pella's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002, were \$212,532, \$229,529, and \$213,500, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa - The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104<sup>th</sup> St., Des Moines, Iowa 50322.

Plan members are required to contribute 9.35% of earnable compensation and the City's contribution rate may not be less than 17% of earnable compensation for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2004, 2003 and 2002 were \$103,678, \$91,419, and \$87,710, respectively, which met the required minimum contribution for each year.

**(14) Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights must be held in trust of the exclusive benefit of plan participants and beneficiaries.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

**(15) Jointly Governed Organizations**

The City participates in a jointly governed organization that provides goods or services to the citizenry of the City but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Marion County Emergency Management Commission.

CITY OF PELLA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

**(16) Related Party Transactions**

The City had business transactions between the City and Eagle Electric, Inc. (a corporation in which Council Member Bruce Schiebout is a stockholder), for electrical work totaling \$740 during the year ended June 30, 2004. There were no related payables to Eagle Electric, Inc. at June 30, 2004.

The City had business transactions between the City and De Jong Greenhouses (a business in which Mark De Jong, Council Member and Mayor Pro Tem, is an owner), for planting materials totaling \$700 during the year ended June 30, 2004. There were no related payables to De Jong Greenhouses at June 30, 2004.

The City had business transactions between the City and Tulip City Agency, Ltd. (a corporation in which Mayor Ted Zylstra is a stockholder) for insurance totaling \$86,749 during the year ended June 30, 2004. Related payables to Tulip City Agency at June 30, 2004 were \$1,496.

**(17) Major Customer**

During the year ended June 30, 2004, charges for services provided by the City of Pella Municipal Electric Utility to Pella Corporation were \$3,061,194 and to Vermeer Manufacturing were \$1,764,448. These charges represent 23.63% and 13.62%, respectively, of total charges for electric services.

**(18) Prior Period Adjustment**

In the process of reviewing capital expenditures for the GASB 34 inclusion of infrastructure, it was discovered that some items that should have been included in general fixed assets were omitted and some items included will be more properly included in infrastructure. Due to this information, general fixed assets, and accumulated depreciation have been corrected as of 7/1/03. This correction decreases the general fixed asset property and equipment by \$1,051,361. Accumulated depreciation was decreased by \$477,734, resulting in a net decrease to the beginning fund balance of \$573,627. This affects the general government-wide financials only.

New terminology and classifications have required that funds previously listed as fiduciary expendable trust funds now be classified as governmental special revenue funds and funds previously listed as fiduciary nonexpendable trust funds now be classified as governmental permanent funds. See note 12 for details.

Over the years, the City of Pella has been accumulating SO<sub>2</sub> credits because the emissions from local plants have been lower than allowed. The City has not included a value for these credits in the past. However, the number of credits and value have recently increased. As of 7/1/03, 4,794 SO<sub>2</sub> credits had accumulated at an approximate value of \$135 per credit, or \$647,190. An asset has been added to the electric fund and the beginning fund balance has increased by \$647,190 to account for these credits. By year end an additional 1,195 credits had been earned. The original beginning electric fund balance on 7/1/03 was \$28,865,791. As restated, the 7/1/03 beginning balance is \$29,512,981.

**(19) Subsequent Events**

On October 20, 2004, 1,000 SO<sub>2</sub> credits were sold at \$515 per credit, totaling \$515,000 received. The price of the SO<sub>2</sub> credits had a substantial increase after the year end. After the 1,000 credits were sold, 4,850 credits are remaining.

CITY OF PELLA, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

**(20) Accounting Change**

Governmental Accounting Standards Board (GASB) Interpretation No. 39, Determining Whether Certain Organizations Are Component Units was implemented for the year ended June 30, 2004. The statement gives guidelines for the inclusion of component units on the financial statements. There are not any entities to present as discretely presented component units for the year ended June 30, 2004.

**CITY OF PELLA, IOWA**

### **Required Supplementary Information**

CITY OF PELLA, IOWA  
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN BALANCES - BUDGET AND ACTUAL (MODIFIED ACCRUAL BASIS) -  
GOVERNMENTAL AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended June 30, 2004

	Governmental Funds-Actual	Proprietary Funds -Actual
Revenues:		
Property taxes	\$ 2,837,958	-
TIF revenues	1,444,657	-
Other city taxes	1,218,622	-
Licenses and permits	20,427	-
Use of money and property	120,419	238,863
Intergovernmental	1,687,032	-
Charges for services	251,492	17,838,098
Miscellaneous	516,042	-
Total revenues	8,096,649	18,076,961
Expenditures/Expenses:		
Public safety	1,148,456	-
Public works	918,075	-
Culture and recreation	1,491,734	-
Community and economic development	262,752	-
General government	666,256	-
Debt service	1,743,005	-
Capital projects	3,205,314	-
Non-program	-	21,943,409
Total expenditures/expenses	9,435,592	21,943,409
Excess (deficiency) of revenues over (under) expenditures/expenses	(1,338,943)	(3,866,448)
Other financing sources (uses):		
Operating transfers from other funds	3,723,111	103,331
Operating transfers to other funds	(3,702,064)	(124,378)
Other	(3,954)	303,312
Debt Proceeds	-	6,000,000
Proceeds from sale of assets	-	18,712
Total other financing sources	17,093	6,300,977
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	(1,321,850)	2,434,529
Balance beginning of year	4,552,930	16,142,056
Balance end of year	\$ 3,231,080	18,576,585

See accompanying independent auditor's report.

See the following page for GAAP to modified accrual conversion necessary for this comparison.

Budget			
Total Actual	Original	Final	Variance Favorable (Unfavorable)
2,837,958	2,824,659	2,824,659	13,299
1,444,657	1,442,100	1,442,100	2,557
1,218,622	1,032,827	1,032,827	185,795
20,427	13,300	13,300	7,127
359,282	39,000	39,000	320,282
1,687,032	1,470,300	1,470,300	216,732
18,089,590	4,921,200	18,224,200	(134,610)
516,042	54,700	54,700	461,342
26,173,610	11,798,086	25,101,086	1,072,524
1,148,456	1,237,700	1,237,700	89,244
918,075	891,900	891,900	(26,175)
1,491,734	1,626,300	1,629,550	137,816
262,752	358,800	418,800	156,048
666,256	538,250	538,250	(128,006)
1,743,005	1,938,203	1,938,203	195,198
3,205,314	3,024,135	3,049,235	(156,079)
21,943,409	4,839,500	23,929,100	1,985,691
31,379,001	14,454,788	33,632,738	2,253,737
(5,205,391)	(2,656,702)	(8,531,652)	3,326,261
3,826,442	-	-	(3,826,442)
(3,826,442)	(1,952,865)	(7,005,465)	(3,179,023)
299,358	4,052,865	14,979,965	14,680,607
6,000,000	-	-	(6,000,000)
18,712	-	-	(18,712)
6,318,070	2,100,000	7,974,500	1,656,430
1,112,679	(556,702)	(557,152)	\$ 1,669,831
20,694,986	3,128,004	19,651,974	
21,807,665	2,571,302	19,094,822	

CITY OF PELLA, IOWA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
Year ended June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a city and electric budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The City's budget is prepared on the accrual basis.

Formal and legal budgetary control for the certified budget is based upon eight major classes of expenditures known as functional areas, not by fund or fund type. These eight functional areas are public safety, culture and recreation, public works, community and economic development, general government, debt service, capital projects, and non-program. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level.

During the year ended June 30, 2004, disbursements in the public works, general government, and capital projects functions exceeded the amount budgeted.

CITY OF PELLA, IOWA  
BUDGETARY COMPARISON SCHEDULE  
GAAP TO MODIFIED ACCRUAL RECONCILIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended June 30, 2004

	Governmental Funds		
	GAAP	Accrual Adjustments	Modified Accrual Basis
Total revenues	\$ 8,096,649	-	8,096,649
Total expenditures	9,435,592	-	9,435,592
Deficiency of revenues under expenditures	(1,338,943)	-	(1,338,943)
Other financing sources (uses):			
Operating transfers from other funds	3,723,111	-	3,723,111
Operating transfers to other funds	(3,702,064)	-	(3,702,064)
Loss on investments	(3,954)	-	(3,954)
Total other financing sources	17,093	-	17,093
Decrease in fund balance	(1,321,850)	-	(1,321,850)
Beginning of year, as restated note 12 & 18	4,552,930	-	4,552,930
Fund balance end of year	\$ 3,231,080	-	3,231,080

	Proprietary Funds		
	GAAP	Accrual Adjustments	Modified Accrual Basis
Total revenues	\$ 18,076,961	-	18,076,961
Expenses:			
Nonprogram	15,618,958	6,324,451	21,943,409
Total expenses	15,618,958	6,324,451	21,943,409
Excess (deficiency) of revenues under expenses	2,458,003	(6,324,451)	(3,866,448)
Other financing sources (uses)	300,977	6,000,000	6,300,977
Increase (decrease) in net assets	2,758,980	(324,451)	2,434,529
Beginning net assets, as restated note 18	45,043,177	(28,901,121)	16,142,056
Ending net assets	\$ 47,802,157	(29,225,572)	18,576,585

The City budgets on the modified accrual basis. It includes proprietary expenditures outlays for capital assets and debt principal paid with adjustments to remove the effects of depreciation and bond issuance and discount costs recognized in GAAP accounting. The adjustments account for the \$6,324,451 adjustment to proprietary expenditures. The budget also includes all debt proceeds received. This adjustment explains the \$6,000,000 increase in the proprietary fund under other financing sources (uses).

## **Other Supplementary Information**

**CITY OF PELLA, IOWA**

## Schedule 1

CITY OF PELLA, IOWA  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2004

## Special Revenue Funds

	Tax Increment Financing	Local Option Tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Commission	Carnegie Viersen Library Gift/Memorial
<b>Assets</b>							
Cash and pooled investments	\$ 87,365	87,837	(2,741)	2,239	999	4,159	68,438
Receivable:							
Interest receivable	651	1,121	-	7	2	9	56
Property tax:							
Delinquent	-	-	2,741	-	-	-	-
Succeeding year	-	-	399,199	-	-	-	-
Other tax:							
Local option	-	101,367	-	-	-	-	-
TIF delinquent	5,545	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 93,561</b>	<b>190,325</b>	<b>399,199</b>	<b>2,246</b>	<b>1,001</b>	<b>4,168</b>	<b>68,494</b>
<b>Liabilities and Fund Balance</b>							
Accounts payable	\$ -	-	-	-	-	-	151
Interfund payable	681,637	-	-	-	-	-	-
Deferred Revenue:							
Succeeding year property tax	-	-	399,199	-	-	-	-
Total liabilities	681,637	-	399,199	-	-	-	151
Reserved:							
Permanent trust	-	-	-	-	-	-	-
Other special purposes	-	-	-	2,246	1,001	4,168	68,343
Unreserved	(588,076)	190,325	-	-	-	-	-
Total fund balances	(588,076)	190,325	-	2,246	1,001	4,168	68,343
<b>Total liabilities and fund balance</b>	<b>\$ 93,561</b>	<b>190,325</b>	<b>399,199</b>	<b>2,246</b>	<b>1,001</b>	<b>4,168</b>	<b>68,494</b>

See accompanying independent auditor's report.

Schedule 1

Special Revenue Funds							Permanent Funds			Total Nonmajor Governmental Funds
Joan Farver- Kuyper Auditorium	Swim Team Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Parks Development		Carnegie- Viersen Trust Fund	Carnegie-Viersen- Van Gorp Trust Fund	Van Gorp Trust	
26,929	3,982	106,092	17,261	18,982	35,962		56,040	50,000	100,000	663,544
33	3	258	-	-	9		-	-	-	2,149
-	-	-	-	-	-		-	-	-	2,741
-	-	-	-	-	-		-	-	-	399,199
-	-	-	-	-	-		-	-	-	101,367
-	-	-	-	-	-		-	-	-	5,545
26,962	3,985	106,350	17,261	18,982	35,971		56,040	50,000	100,000	1,174,545
325	-	-	-	-	771		-	-	-	1,247
-	-	-	-	-	-		-	-	-	681,637
-	-	-	-	-	-		-	-	-	399,199
325	-	-	-	-	771		-	-	-	1,082,083
-	-	-	-	-	-		40,000	50,000	100,000	190,000
26,637	3,985	106,350	17,261	18,982	35,200		16,040	-	-	300,213
-	-	-	-	-	-		-	-	-	(397,751)
26,637	3,985	106,350	17,261	18,982	35,200		56,040	50,000	100,000	92,462
26,962	3,985	106,350	17,261	18,982	35,971		56,040	50,000	100,000	1,174,545

## Schedule 2

CITY OF PELLA, IOWA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 NONMAJOR OTHER GOVERNMENTAL FUNDS  
 Year ended June 30, 2004

	Special Revenue Funds								
	Tax Increment Financing	Local Option Tax	Employee Benefits	Police Pension	Pella Clothing Bank	Police Reserve	Community Development Commission	Carnegie Viersen Library Gift/ Memorial	Joan Farver- Kuyper Auditorium
Revenues:									
Charges for services (fees)	\$ -	-	-	-	2,411	-	-	-	-
Property taxes	-	-	365,444	-	-	-	-	-	-
TIF	1,444,657	-	-	-	-	-	-	-	-
Local option tax	-	851,409	-	-	-	-	-	-	-
	1,444,657	851,409	365,444	-	2,411	-	-	-	-
Use of money and property:									
Interest on investments	5,123	9,489	393	-	50	13	59	1,258	238
Rent	-	-	-	-	-	-	-	-	-
	5,123	9,489	393	-	50	13	59	1,258	238
Miscellaneous:									
Drug Task Force	-	-	-	-	-	-	-	-	-
Donations	-	-	-	-	-	-	-	22,231	16,096
	-	-	-	-	-	-	-	22,231	16,096
Total revenues	1,449,780	860,898	365,837	-	2,461	13	59	23,489	16,334
Expenditures:									
Culture and recreation:									
Supplies and services	-	-	-	-	8,925	-	-	10,111	8,122
Public works:									
Interest on interfund loan	40,564	-	-	-	-	-	-	-	-
Total expenditures	40,564	-	-	-	8,925	-	-	10,111	8,122
Excess of revenues over expenditures	1,409,216	860,898	365,837	-	(6,464)	13	59	13,378	8,212
Other financing uses:									
Operating transfer to, in	-	-	-	-	-	-	-	-	427
Operating transfer from, (out)	(1,356,233)	(1,735,000)	(365,837)	(11)	-	-	-	-	-
Loss on investments	-	-	-	-	-	-	-	-	-
Total other financing uses	(1,356,233)	(1,735,000)	(365,837)	(11)	-	-	-	-	427
Excess (deficiency) of revenues over (under) expenditures and other financing uses	52,983	(874,102)	-	(11)	(6,464)	13	59	13,378	8,639
Fund balances beginning of year	(641,059)	1,064,427	-	11	8,710	988	4,109	54,965	17,998
Fund balances end of year	\$ (588,076)	190,325	-	-	2,246	1,001	4,168	68,343	26,637

See accompanying independent auditor's report.

Schedule 2

Special Revenue Funds										Permanent Funds			
Leisure Services-Parks/ Swim Team	Leisure Services Scholar-ship	Police Asset Forfeiture	Police Asset Forfeiture Trust	Lighting Trust	Parks Develop-ment	Sesqui-centennial Trust	Soccer Complex	Airport Trust		Carnegie-Viersen Trust Fund	Carnegie-Viersen- Van Gorp Trust Fund	Van Gorp Trust	Total Nonmajor Governmental Funds
-	-	-	-	-	-	-	-	-	-	-	-	-	2,411
-	-	-	-	-	-	-	-	-	-	-	-	-	365,444
-	-	-	-	-	-	-	-	-	-	-	-	-	1,444,657
-	-	-	-	-	-	-	-	-	-	-	-	-	851,409
-	-	-	-	-	-	-	-	-	-	-	-	-	2,663,921
34	-	3	3	-	143	1	52	1,643		-	-	-	18,502
-	-	-	-	-	2,775	-	-	-		-	-	-	2,775
34	-	3	3	-	2,918	1	52	1,643		-	-	-	21,277
-	-	14,873	-	-	-	-	-	-		-	-	-	14,873
11,497	-	-	-	-	10,800	-	-	-		-	50,000	100,000	210,624
11,497	-	14,873	-	-	10,800	-	-	-		-	50,000	100,000	225,497
11,531	-	14,876	3	-	13,718	1	52	1,643		-	50,000	100,000	2,910,695
15,562	-	-	-	-	12,729	-	4,616	-		187	-	-	60,252
-	-	-	-	-	-	-	-	-		-	-	-	40,564
15,562	-	-	-	-	12,729	-	4,616	-		187	-	-	100,816
(4,031)	-	14,876	3	-	989	1	(4,564)	1,643		(187)	50,000	100,000	2,809,879
-	-	2,385	-	-	-	-	-	-		-	-	-	2,812
-	(427)	-	(2,385)	(251)	-	(588)	-	-		-	-	-	(3,460,732)
-	-	-	-	-	-	-	-	-		(3,954)	-	-	(3,954)
-	(427)	2,385	(2,385)	(251)	-	(588)	-	-		(3,954)	-	-	(3,461,874)
(4,031)	(427)	17,261	(2,382)	(251)	989	(587)	(4,564)	1,643		(4,141)	50,000	100,000	(651,995)
8,016	427		2,382	251	34,211	587	23,546	104,707		60,181	-	-	744,457
3,985	-	17,261	-	-	35,200	-	18,982	106,350		56,040	50,000	100,000	92,462

CITY OF PELLA, IOWA  
COMBINING BALANCE SHEET  
TAX INCREMENT FINANCING  
June 30, 2004

	Bos Landen	High Point	Pella Business Corridor	Total
<b>Assets</b>				
Cash and pooled investments	\$ (184)	18,688	68,861	87,365
Receivables:				
Interest receivable	651	-	-	651
Other tax:				
TIF delinquent	-	-	5,545	5,545
<b>Total assets</b>	<b>\$ 467</b>	<b>18,688</b>	<b>74,406</b>	<b>93,561</b>
<b>Liabilities and Fund Equity</b>				
Liabilities:				
Interfund payable	\$ 144,391	-	537,246	681,637
Fund equity:				
Unreserved	(143,924)	18,688	(462,840)	(588,076)
<b>Total liabilities and fund equity</b>	<b>\$ 467</b>	<b>18,688</b>	<b>74,406</b>	<b>93,561</b>

See accompanying independent auditor's report.

CITY OF PELLA, IOWA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 TAX INCREMENT FINANCING  
 Year ended June 30, 2004

	Bos Landen	High Point	Pella Business Corridor	Total
Revenues:				
TIF revenues	\$ 517,823	-	926,834	1,444,657
Use of money and property:				
Interest on investments	4,251	66	806	5,123
Total revenues	522,074	66	927,640	1,449,780
Expenditures:				
Public works:				
Interest on debt	10,154	-	30,410	40,564
Total expenditures	10,154	-	30,410	40,564
Excess of revenues over expenditures	511,920	66	897,230	1,409,216
Other financing uses:				
Operating transfer from, (out)	(490,533)	(7,700)	(858,000)	(1,356,233)
Total other financing uses	(490,533)	(7,700)	(858,000)	(1,356,233)
Excess (deficiency) of revenues over (under) expenditures and other uses	21,387	(7,634)	39,230	52,983
Fund balances beginning of year	(165,311)	26,322	(502,070)	(641,059)
Fund balances end of year	\$ (143,924)	18,688	(462,840)	(588,076)

See accompanying independent auditor's report.

## Schedule 5

CITY OF PELLA, IOWA  
 COMBINING STATEMENT OF NET ASSETS  
 PROPRIETARY FUND TYPE-ENTERPRISE  
 June 30, 2004

	Business Type Activities Enterprise Funds				
	Water	Sewer	Electric	Sanitation	Totals
<b>Assets</b>					
Current assets:					
Cash and pooled investments	\$ 1,746,683	568,098	6,474,736	70,948	8,860,465
Receivables:					
Property tax:					
Delinquent	-	-	-	-	-
Accrued interest	2,305	1,851	25,720	113	29,988
Trade (net of allowance for uncollectible)	164,021	165,361	1,131,282	29,319	1,489,983
Interfund receivable	-	-	144,391	-	144,391
Inventories	69,589	96,273	536,554	-	702,416
SO2 credits	-	-	808,515	-	808,515
Restricted assets(cash and pooled investments)	460,000	447,300	6,960,272	-	7,867,572
Total current assets	2,442,598	1,278,883	16,081,470	100,380	19,903,330
Non-current assets:					
Deferred charge (issuance costs)	47,850	64,818	140,287	-	252,955
Capital assets:					
Land, wastewater rights, and infrastructure	122,970	907,049	14,382,778	-	15,412,797
Depreciable buildings, property, equipment and infrastructure, net	6,691,119	14,518,972	17,065,455	-	38,275,546
Total non-current assets	6,861,939	15,490,839	31,588,520	-	53,941,298
<b>Total assets</b>	<b>\$ 9,304,537</b>	<b>16,769,722</b>	<b>47,669,990</b>	<b>100,380</b>	<b>73,844,628</b>
<b>Liabilities</b>					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 58,305	39,929	1,188,127	28,631	1,314,992
Salaries and benefits payable	15,124	12,807	53,926	939	82,796
Deposits	-	-	8,197	-	8,197
Accrued interest payable	18,436	20,169	54,846	-	93,451
Compensated absences payable	23,431	24,226	79,089	1,701	128,447
Long-term debt - due within one year:					
General obligation bonds payable	270,000	105,000	-	-	375,000
Revenue bonds payable	75,000	185,000	1,145,000	-	1,405,000
Total current liabilities	460,296	387,131	2,529,185	31,271	3,407,883
Long-term liabilities (net of current portion):					
Compensated absences payable	36,925	26,162	51,231	77	114,395
General obligation bonds payable (net of unamortized discount)	-	1,300,000	-	-	1,300,000
Revenue bonds payable (net of unamortized discount)	4,048,689	4,228,277	13,358,760	-	21,635,726
Total long-term liabilities	4,085,614	5,554,439	13,409,991	77	23,050,121
<b>Total liabilities</b>	<b>4,545,910</b>	<b>5,941,570</b>	<b>15,939,176</b>	<b>31,348</b>	<b>26,458,004</b>

CITY OF PELLA, IOWA  
 COMBINING STATEMENT OF NET ASSETS  
 PROPRIETARY FUND TYPE-ENTERPRISE  
 June 30, 2004

	Business Type Activities Enterprise Funds				
	Water	Sewer	Electric	Sanitation	Totals
<b>Net Assets</b>					
Invested in capital assets, net of related debt	2,420,400	9,607,744	16,944,473	-	28,972,617
Restricted for debt service	460,000	447,300	5,452,075	-	6,359,375
Restricted for improvements	-	-	1,500,000	-	1,500,000
Restricted other	-	-	8,197	-	8,197
Unrestricted	1,878,226	773,108	7,826,069	69,032	10,546,435
<b>Total net assets</b>	<b>\$ 4,758,626</b>	<b>10,828,152</b>	<b>31,730,814</b>	<b>69,032</b>	<b>47,386,624</b>

See accompanying independent auditor's report.

CITY OF PELLA, IOWA  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUND TYPE-ENTERPRISE  
 June 30, 2004

	Business Type Activities Enterprise Funds				
	Water	Sewer	Electric	Sanitation	Totals
Operating revenues:					
Utility service charges	\$ 2,135,726	1,436,833	12,955,284	413,166	16,941,009
Internal service charges	-	-	-	-	-
Total revenues	2,135,726	1,436,833	12,955,284	413,166	16,941,009
Operating expenses:					
Personnel services	622,460	512,330	868,354	37,783	2,040,927
Contractual	-	21,146	-	313,651	334,797
Franchise fees	52,984	28,526	-	-	81,510
Materials and supplies	476,978	415,423	5,668,725	24,584	6,585,710
Purchased power	-	-	2,605,093	-	2,605,093
Payments in lieu of taxes	-	-	476,930	-	476,930
Depreciation	289,438	652,909	809,688	-	1,752,035
Claims expense	-	-	-	-	-
Total operating expenses	1,441,860	1,630,334	10,428,790	376,018	13,877,002
Operating income (loss)	693,866	(193,501)	2,526,494	37,148	3,064,007
Non-operating revenues (expenses):					
Interest expense and debt costs	(238,057)	(255,650)	(555,151)	-	(1,048,858)
Payments in lieu of services	-	-	(118,088)	-	(118,088)
Investment earnings	20,719	20,734	192,273	837	234,563
Sales of fixed assets	-	-	18,712	-	18,712
Other revenues	58,422	49,962	185,146	9,782	303,312
Total non-operating revenues	(158,916)	(184,954)	(277,108)	10,619	(610,359)
Income (loss) before operating transfers	534,950	(378,455)	2,249,386	47,767	2,453,648
Transfers to, in	-	75,000	-	-	75,000
Transfers from, (out)	(19,367)	(19,368)	(31,553)	(52,410)	(122,698)
Net transfers	(19,367)	55,632	(31,553)	(52,410)	(47,698)
Change in net assets	515,583	(322,823)	2,217,833	(4,643)	2,405,950
Net assets beginning of year, (as restated in electric fund see note 18)	4,243,043	11,150,975	29,512,981	73,675	44,980,674
Net assets end of year	\$ 4,758,626	10,828,152	31,730,814	69,032	47,386,624

See accompanying independent auditor's report.

**CITY OF PELLA, IOWA**

CITY OF PELLA, IOWA  
 COMBINING STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND TYPE-ENTERPRISE  
 Year Ended June 30, 2004

	Business Type Activities Enterprise Funds				
	Water	Sewer	Electric	Sanitation	Total
Cash flows from operating activities:					
Cash received from customers	\$ 2,164,801	1,442,100	12,865,171	416,698	16,888,770
Cash payments to employees for services	(591,111)	(487,744)	(844,255)	(37,398)	(1,960,508)
Cash payments for goods and services	(535,746)	(456,007)	(8,594,852)	(335,582)	(9,922,187)
Net cash provided by operating activities	1,037,944	498,349	3,426,064	43,718	5,006,075
Cash flows from non capital financing activities:					
Miscellaneous receipts	5,959	42,147	23,821	-	71,927
Special assessments/other gov't payments	-	453	-	-	453
Replacement tax, transfers	-	-	(118,088)	-	(118,088)
Decrease in interfund receivable	-	-	24,846	-	24,846
Transfers in	-	75,000	-	-	75,000
Transfers out	(19,367)	(19,368)	(31,553)	(52,410)	(122,698)
Net cash provided (used) by non capital financing activities	(13,408)	98,232	(100,974)	(52,410)	(68,560)
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(167,983)	(213,248)	(2,669,162)	-	(3,050,393)
Principal paid on long-term debt	(345,000)	(228,000)	(1,460,000)	-	(2,033,000)
Principal paid on early retirement of bond	-	-	(2,930,000)	-	(2,930,000)
Interest and other long-term debt costs	(241,254)	(258,214)	(547,226)	-	(1,046,694)
Discounts paid	-	-	(46,671)	-	(46,671)
Issuance costs paid	-	-	(99,602)	-	(99,602)
Proceeds from sale of capital asset	-	-	18,712	-	18,712
Long-term debt proceeds	-	-	6,000,000	-	6,000,000
Net cash used by capital and related financing activities:	(754,237)	(699,462)	(1,733,949)	-	(3,187,648)
Cash flows from investing activities:					
Proceeds (to) from investments	(583,830)	(441,357)	375,030	(23,748)	(673,905)
Investment income	20,100	20,237	213,317	806	254,460
Net cash provided (used) by investing activities	(563,730)	(421,120)	588,347	(22,942)	(419,445)
Net increase (decrease) in cash and cash equivalents	(293,431)	(524,001)	2,179,488	(31,634)	1,330,422
Cash and cash equivalents at beginning of year	1,552,159	777,781	677,858	56,430	3,064,228
Cash and cash equivalents at end of year	\$ 1,258,728	253,780	2,857,346	24,796	4,394,650

CITY OF PELLA, IOWA  
COMBINING STATEMENT OF CASH FLOWS  
PROPRIETARY FUND TYPE-ENTERPRISE  
Year Ended June 30, 2004

	Business Type Activities Enterprise Funds				
	Water	Sewer	Electric	Sanitation	Total
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ 693,866	(193,501)	2,526,494	37,148	3,064,007
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	289,438	652,909	809,688	-	1,752,035
Change in assets and liabilities:					
(Increase) decrease in receivables	29,075	5,267	(96,687)	3,532	(58,813)
(Increase) decrease in inventory	(11,580)	4,217	(3,130)	-	(10,493)
Increase in accounts payable	5,796	4,871	159,026	2,653	172,346
Increase (decrease) in accrued expenses	(1,764)	2,139	9,270	55	9,700
Increase in compensated absences	33,113	22,447	14,829	330	70,719
Increase in deposits held	-	-	6,574	-	6,574
Total adjustments	344,078	691,850	899,570	6,570	1,942,068
Net cash provided by operating activities	\$ 1,037,944	498,349	3,426,064	43,718	5,006,075
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on the combining balance sheet:</b>					
Current assets:					
Cash and investments	\$ 2,206,682	1,015,398	13,435,008	70,948	16,728,036
Less items not meeting definition of cash equivalent:					
Certificates of deposit	(750,174)	(602,714)	(8,370,738)	(36,523)	(9,760,149)
Iowa Public Agency Investment Trust	(13,252)	(10,647)	(147,876)	(645)	(172,420)
Money market fund	(184,529)	(148,257)	(2,059,048)	(8,984)	(2,400,818)
	(947,955)	(761,618)	(10,577,662)	(46,152)	(12,333,387)
Cash and cash equivalents at end of year	\$ 1,258,727	253,780	2,857,346	24,796	4,394,649

See accompanying independent auditor's report.

Schedule of noncash investing, capital and financing activities.

The enterprise funds have issuance costs related to financing that are recorded initially as assets and then prorated over the life of the loan. The following funds had issuance costs expensed in the current year from prior year's cash outlays: Water fund \$4,481, Sewer fund \$4,412, and Electric fund \$19,882. The Electric fund's issuance costs were unusually high due to an early payoff of an Electric Revenue bond resulting in \$10,854 all being recognized this year instead of over the next 7 years for one bond issue.

The enterprise funds also have discounts which are netted against debt in the financial statements. Each year a ratable portion of the discount is amortized. Discount costs recognized in the current year without corresponding cash outlays are: Water fund \$3,944, Sewer fund \$1,050, and Electric fund \$49,410. The Electric fund discount costs were unusually high due to an early payoff of an Electric Revenue bond resulting in \$39,219 all being recognized this year instead of over the next 7 years for one bond issue.

CITY OF PELLA, IOWA  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUNDS  
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues:				
Property tax	2,837,958	2,794,278	2,605,151	2,626,766
Tax increment financing revenue	1,444,657	1,069,118	732,375	460,392
Local option sales tax	\$ 851,409	908,915	424,448	-
Other city tax	367,213	384,797	323,714	304,955
Licenses and permits	20,427	14,558	14,351	15,705
Use of money and property	120,419	99,101	170,331	215,106
Intergovernmental	1,687,032	2,009,076	1,974,034	1,802,148
Special assessments	-	-	2,588	2,365
Charges for service	251,492	310,852	307,930	350,169
Miscellaneous	516,042	289,876	752,519	591,068
Total	<u>\$ 8,096,649</u>	<u>7,880,571</u>	<u>7,307,441</u>	<u>6,368,674</u>
Expenditures:				
Operating:				
Public safety	\$ 1,148,456	1,098,202	1,088,566	1,017,400
Public works	918,075	1,524,769	1,659,514	1,512,314
Culture and recreation	1,491,734	1,412,690	1,973,083	1,798,069
Community and economic development	262,752	86,560	237,300	216,251
General government	666,256	718,703	940,854	857,400
Debt service	1,743,005	3,881,721	1,400,224	1,093,216
Capital projects	3,205,314	367,781	894,029	2,753,107
Total	<u>\$ 9,435,592</u>	<u>9,090,426</u>	<u>8,193,570</u>	<u>9,247,757</u>

See accompanying independent auditor's report.



Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting

Honorable Mayor  
Members of the City Council  
City of Pella, Iowa

We have audited the financial statements of the City of Pella as of and for the year ended June 30, 2004, and have issued our report thereon dated October 14, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Pella's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments IV-B-04, IV-E-04, IV-J-04 and IV-K-04 have not yet been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Pella's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Pella's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions were described as items in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable condition II-A-04 remains unresolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Pella and other parties to whom the City of Pella may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Pella during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Van Maanen & Associates, P.C.  
Certified Public Accountants

October 14, 2004

CITY OF PELLA, IOWA  
SCHEDULE OF FINDINGS  
YEAR ENDED June 30, 2004

**Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

**Part II: Findings Related to the General Purpose Financial Statements:**

**INSTANCES OF NON-COMPLIANCE**

No matters were noted.

**REPORTABLE CONDITIONS**

II-A-04      Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Currently the same employees that handle cash and deposits also have software access to the receipts module.

Recommendation - We recommend that those employees who handle cash receipts do not also have access to that area of the accounting records.

Response - We will work to maintain the best possible control with the personnel available.

Conclusion - Response accepted.

**Part III: Findings and Questioned Costs for Federal Awards:**

Not applicable since less than \$500,000 in Federal Awards.

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**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-04     Official Depositories - A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

IV-B-04     Certified Budget - Expenditures for the year ended June 30, 2004, exceeded the budget in the Public works, General government, and Capital projects functional areas. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.20 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The total budgeted expenditures were \$33,632,738 and total actual expenditures were \$31,379,001. While we realize we exceeded certain budgeted categories this year, we were under in total expenditures. We implemented a new software system during this fiscal year which will help us track the expenditures by the new categories in the future. The budget will be amended in the future.

Conclusion - Response accepted.

IV-C-04     Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-04     Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-04     Business Transactions

Business transactions between the City and City officials or employees for the year ended June 30, 2004 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bruce Schiebout, Council Member Stockholder of Eagle Electric, Inc.	Electrical work	\$740
Mark De Jong, Council Member Owner of De Jong Greenhouses	Planting materials	\$700
Ted Zylstra, Former Mayor Stockholder of Tulip City Agency	Insurance	\$86,749

Related payables to Tulip City Agency at June 30, 2004 were \$1,496.

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- IV-F-04     Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- IV-G-04     Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- IV-H-04     Council Minutes - Published minutes did not include the purpose of the expenditure.
- Recommendation - The purpose of expenditures should be included in the published minutes.
- Response - When expenditures are approved by Council, a description of the expenditure is provided that ranges in length from seven to fifteen words. Currently our system does not have the capability to print a report that summarizes our description into one word for publication purposes. However, we are working with our software provider to develop such a report.
- Conclusion - Response accepted.
- IV-I-04     Revenue Bonds - The City has complied with the provisions of the revenue bond indentures.
- IV-J-04     Financial Condition - The Special Revenue Fund, Tax Increment Financing, Bos Landen Account had a deficit balance at June 30, 2004, of \$143,923.
- Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position.
- Response - The deficit is due to an interfund payable to the Electric Utility of \$144,391. We anticipate this payable will be paid back with future TIF revenues.
- Conclusion - Response accepted.
- IV-K-04     Financial Condition - The Special Revenue Fund, Tax Increment Financing, Pella Business Corridor account had a deficit balance at June 30, 2004, of \$462,840.
- Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position.
- Response - The deficit is due to an interfund payable to the Road Use Fund of \$537,246. We anticipate this payable will be paid back with future TIF revenues.
- Conclusion - Response accepted.